



LITERATURE KEY FINDINGS

Creating an Effective Reward and Recognition Program

Key Finding 1: Approximately 90% of companies maintain some type of reward and recognition program. The majority of companies use these programs to create a positive work environment, improve employee morale, and motivate high performance. Research suggests that when designed and implemented properly, reward and recognition positively affects an organization's bottom line.

The Majority of Companies Maintain a Reward and Recognition Program

According to a 2003 survey conducted by WorlDatWork and the National Association for Employee Recognition (NAER), the majority of companies maintain formal and informal reward and recognition programs and their use is becoming increasingly prevalent. The frequency with which companies use reward and recognition programs breaks down as follows:^{1,2,3,4}

PREVALENCE OF REWARD AND RECOGNITION PROGRAMS IN 2003

- **Overall Prevalence:** Of 413 responding companies, 87% maintain some type of reward and recognition program.
- **Formal Programs:** 60% of companies have written guidelines regarding employee rewards.
- **Sales Programs:** 51% of companies reward employees for achieving sales goals.
- **Increase in Utilization:** Of the companies with a reward and recognition program, 90% report using employee recognition more frequently in 2003 than in 2002.
- **Program Expansion Projections:** 40% of surveyed companies anticipate expanding their program in 2004.

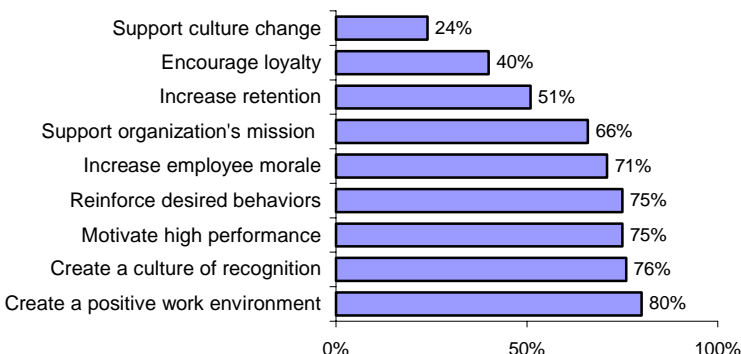
In 2002, only 64% of companies had reward and recognition programs

In 2002, only 17% of companies rewarded sales performance

Companies Use Reward and Recognition to Create a Positive Work Environment and Drive Performance

The WorlDatWork and NAER survey found that companies use reward and recognition programs to achieve strategic goals; of the 65% of companies with formally documented programs, 97% directly align their reward and recognition program with the organization's business strategy. Additionally, the study identified the following driving forces for implementing and maintaining reward and recognition programs:^{5,6,7,8,9}

Figure 1: Key Goals of Reward and Recognition Programs



Improving Employee Morale

A study conducted by IOMA in 2004 found that 91% of companies cite "boosting employee morale" as the *main* objective of their reward and recognition program

Effective Reward and Recognition Programs Produce a Positive Return on Investment

Reward and recognition programs can be a cost-effective and valuable tool to increase employee morale, productivity, revenue, and profits as well as lower turnover, absenteeism, and stress. In fact, as detailed below, studies have found that effective reward and recognition programs have the following benefits:^{10,11,12,13}

INCREASED RETURN TO SHAREHOLDERS

A 2005 Watson Wyatt Worldwide study found that companies with an effective recognition program realized a median return to shareholders that is nearly double that of companies without such programs.

BOOSTS EMPLOYEE PERFORMANCE

A recent study conducted by the Society for Incentive and Travel Executives found that properly constructed rewards and incentive programs can boost employee performance by up to 44%.

Key Finding 2: Although reward and recognition programs have the potential to produce positive returns to shareholders, research demonstrates that such benefits will only be achieved through an effective program that reinforces an organization's goals and values in a well publicized, thoughtful program affecting a large number of employees.

Recently published literature reveals that there are several key components of any effective reward and recognition program. Multiple authors argue that programs missing any one of these key components will, at best, fail to engage employees, and at worst alienate employees. In fact, according to Bob Nelson, the author of *1001 Ways to Reward Employees*, some forms of awards can hurt organizations by promoting a culture of entitlement. Additional research reveals that programs that are impersonal or reward too few people may alienate employees. These key components and case examples of their influence are detailed below:^{14,15,16}

SSMART REWARDS

Jim Brintnall, author of *What Make a Good Recognition Reward?*, uses the acronym SSMART to advise employers how to design an effective program. The acronym is detailed below:¹⁷

- Supports Organizational Goals and Values
- Sincere and Simple
- Meaningful
- Adaptable
- Relevant
- Timely

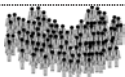


Component #1: Link Rewards to Company Strategies and Goals

Reward and recognition programs must connect the needs and expectations of the workforce with the company's overall goals and strategies. A program that reinforces important company values and goals will encourage employees to act in line with such goals and emphasize the importance of achieving these goals. Alternatively, rewards which do not connect with organizational goals may convey a misleading message and encourage employees to act in a manner that does not facilitate the company's objectives.^{18,19,20,21} The case profile below illustrates how AFLAC leveraged their reward and recognition program to reinforce the company's cultural goals:²²

FIGURE 3: USING REWARD AND RECOGNITION TO REINFORCE COMPANY CULTURE AT AFLAC

AFLAC, Incorporated	Industry: Financial Services 2005 Employees: 7,263 2005 Revenues: More than \$10 billion
SITUATION	
AFLAC wanted to reinforce the importance of the company culture, which is based on the founders' philosophy, "treat people as you would like to be treated". AFLAC believes that embedding this motto in their company culture will encourage employees to treat one another well and result in better business results.	
ACTION	
AFLAC designed their reward and recognition program to emphasize the importance of treating one another like "family". The program includes the following components:	
<ul style="list-style-type: none"> ▪ Employee Birthday Parties—All employees are recognized on their birthday with a card and a gift selected through a vendor. ▪ Employee Appreciation Week—Employee recognition week includes family-friendly events such as free, family-oriented movie screenings, or AFLAC celebrations at an amusement park, nature facility, or petting zoo. ▪ Ongoing Recognition—Throughout the year, employees who introduce innovative ideas or go above-and-beyond expectations are recognized with stock options, time off, or other gifts. 	
RESULT	
AFLAC measures success through employee satisfaction surveys, and the company implements improvements based on employee feedback. Although no specific results are available, the company notes improvements in employee and customer satisfaction.	



Component #2: Impact a Large Number of Employees

The most effective programs affect and motivate a large number of a company's employees, rather than just the top performers. Research from Maritz, a reward and recognition service provider, claims that reward programs typically impact only the top 10% of employees, and 52% of employees who qualify for such programs feel that they only have somewhat or no chance of being awarded. Yet, employees must believe that they are capable of receiving a reward and that the process is fair, or the program will fail to motivate and engage employees.^{23,24,25,26,27} According to *Workspan*, best practice dictates the following guidelines for determining how many employees should be rewarded:²⁸

- At least 30% of employees should receive a formal performance award
- 70% to 80% should receive some form of informal recognition
- All employees should be recognized, even if only in the form of a public thank you



Component #3: Create Simple and User-Friendly Systems

To ensure that managers and employees meet the program's participation goals, the nomination and giving procedures should be simple and quick. A complicated, time-intensive process will discourage individuals from rewarding and recognizing other employees. To simplify the program, companies typically keep approvals to a minimum, administer or select awards electronically, and/or involve an external vendor in the administration process.^{29,30,31,32}



Component #4: Involve Employees in the Design and Implementation Phase

As reward and recognition programs are meant to benefit employees, it is logical that employees be given a say in the program structure. Companies often use surveys or focus groups to identify ideal rewards and preferences. Additionally, companies involve employees in routine surveys gauging employee satisfaction with the program and seeking new suggestions. Research indicates that involving employees is typically a successful technique to maintaining employee interest in and satisfaction with a rewards program.



Component #5: Involve and Train Managers

As employees value receiving recognition from their direct managers and managers are typically in charge of administering such programs, managers should be involved in designing programs and trained in their utilization. Involving managers in designing programs will facilitate the creation of a program that managers will use frequently and properly because they believe in the program's goals and potential for impacting employees. Additionally, all managers should be trained to communicate the goals of the program to their employees so that employees understand why certain behaviors are rewarded.^{33,34,35}



Component #6: Communicate and Promote the Program

Even well-designed programs will not accomplish their goals if they are not properly communicated and promoted. When properly communicated, employees will understand the behaviors being reinforced and the logic behind reinforcing such behaviors. Additionally, a relevant rewards system will encourage employees to achieve the company's goals and engage them in the processes. To ensure that programs are communicated effectively, companies can place publicity posters around the office and train managers to communicate the program and its goals.^{36,37,38}



Component #7: Give Personalized Awards, Not Money

Rewards should be personalized and meaningful rather than standard off-the-shelf gifts. In particular, awards should not be cash; 32% of employees responding to an American Express Incentive Services study stated that cash rewards do not improve their work performance. Moreover, cash does not reinforce the company's message or convey a thoughtful message. Cash rewards also run the risk of creating high employee expectations that become difficult to meet.^{39,40,41,42,43} Some examples of personalized rewards are detailed below:^{44,45}

- **Personalizing Awards Through a Book Program**—Another component of Boeing's rewards system is their book program, which enables managers and employees to reward employees with a personally selected book. Books can cover a range of interests including cooking, traveling, and running.
- **Personalizing a Day**—At ARAMARK, employees have days named in their honor. On an employee's day, the employees who know the honoree best are allowed to decide how to celebrate the individual's day. Thus, the individual's award, which can range from a department-wide morning greeting or a private gift given and selected by the individual's spouse, will suit the honoree's preferences.



Component #8: Give Immediate and Innovative Awards

Reward and recognition should be given as soon as possible following the recognizable action, otherwise it loses its relevancy and risks offending employees. Gifts should also be innovative and fun to keep employees engaged in the program.^{46,47,48} The profile below demonstrates how Boeing keeps their program spontaneous and relevant.⁴⁹

FIGURE 2: BOEING'S SPOT AWARDS PROGRAM

The Boeing Company	Industry: Aerospace and Defense 2005 Employees: 153,000 2005 Revenues: More than \$50 billion
SITUATION	
Boeing sought to create a new rewards program that would keep employees motivated and interested.	
ACTION	
Boeing launched "Pride @ Boeing," a system that administers a variety of innovative prizes quickly. To enable awards to be given "on the spot", the company allows individual contributors to nominate and reward their peers with a variety of gifts valued at approximately \$10. Boeing's spot awards include customized candy bars branded with slogans such as, "We can't spell s(-)ccess with out 'u' " and "Thanks a million." Other awards include movie tickets, personal fans, calculators, and vouchers for a 10-minute massage.	
RESULT	
Although no specific figures are available, Boeing has experienced an increase in participation levels and employee satisfaction.	



Component #9: Enable Peer Recognition

Research suggests that companies increasingly include peer recognition in their rewards programs. In fact, Mercer Human Resource Consulting estimates that approximately 35% of large companies have some type of peer-recognition program, up from around 25% five years ago. Although peer recognition typically involves smaller and inexpensive rewards, they tend to effectively motivate and retain employees. The cases below illustrate how two companies used peer recognition programs to improve employee satisfaction:^{50,51,52}

INCREASING EMPLOYEE SATISFACTION AND REWARDS PARTICIPATION THROUGH PEER RECOGNITION AT WELLS FARGO

To increase employee satisfaction, Wells Fargo Internet Service Group created a peer recognition program administered through the company's intranet. This program includes the following aspects:

- **E-Cards**—Employees can send "thank you" e-cards to peers for helping them; the cards go directly to the recipients and managers receive carbon copies.
 - **E-wards**—E-wards are given to employees who go above-and-beyond expectations and exemplify a behavior the company wants to encourage. Employees can nominate peers through an online recognition form and the nominee's manager can approve or deny the nomination. Recipients of these rewards receive gift certificates worth \$50 to \$200, and the reward is often presented at a meeting by the individual's manager.
 - **Rewards Trip**—At the end of each year, the top 5% of e-ward recipients and their guests are given a three-night trip to a resort where the senior management team serves as hosts.
- **Results**—A year after introducing the new rewards program, a company survey found that the number of employees reporting satisfaction with the amount of recognition they receive rose from 44% to 66%. Additionally, the number of e-cards given in a year increased by 67.5%, while e-wards also increased by 77%.

REDUCING HOURLY TURNOVER RATES THROUGH PEER RECOGNITION AT YUM! BRANDS, INCORPORATED

Yum! Brands, Incorporated, the parent company of Taco Bell, Pizza Hut, and KFC, implemented a peer recognition program to address employee turnover issues, as detailed below:

- **Spot Award Cards**—Employees can spontaneously award one another with "Champs Cards." Champs is an acronym representing the company's values, such as cleanliness, hospitality, and accuracy.
 - **Prize Raffles**—Recipients of "Champs Cards" are entered into periodic drawings for small prizes, such as movie tickets, a car wash, or free baby sitting.
- **Results**—Yum! Brands credits the program with helping to reduce hourly turnover rates in the company's restaurants from 181% in 1997 to 109% in the third quarter of 2005.

Component #10: Continually Reevaluate the Program

Companies should continually reevaluate their reward and recognition program to ensure that they remain relevant and aligned with the company's goals and values. Companies should survey employees, hold focus groups, measure participation rates, and evaluate the company's successes to determine if they were impacted by the program. Additionally, companies reevaluate programs routinely to identify new and innovative rewards that maintain engagement in the program.^{53,54,55,56}

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